

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-01
INR-10 NSAE-00 ICA-20 TRSE-00 XMB-04 OPIC-06
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07
CEA-01 PA-02 EA-12 /117 W
-----123430 261321Z /45

R 260800Z MAY 78
FM AMEMBASSY LUXEMBOURG
TO SECSTATE WASHDC 6424
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY PARIS

UNCLAS LUXEMBOURG 0566

USEEC ALSO FOR EMBASSY

USOECB

E.O. 11652: N/A
TAGS: ECON EEC LU
SUBJECT: PRIME MINISTER GASTON THORN'S REVIEW OF
LUXEMBOURG'S ECONOMIC SITUATION

1. SUMMARY: IN A STATE OF THE ECONOMY SPEECH
AT THE OPENING OF LUXEMBOURG'S INTERNATIONAL FAIR
ON MAY 20, PRIME MINISTER THORN HIGHLIGHTED SOME
BRIGHT SPOTS IN LUXEMBOURG'S GENERALLY GLOOMY
ECONOMIC SCENE. HE SAID GNP IS EXPECTED TO RISE
SLIGHTLY IN 1978, THAT ARBED, LUXEMBOURG'S MAJOR
STEEL PRODUCER, IS CONTINUING TO RETRENCH AND
MODERNIZE ITS PLANT AND EQUIPMENT, THAT UNEMPLOY-
MENT IS SLIGHTLY DOWN, THAT INFLATION IS RUNNING
AT AN ACCEPTABLE 3.1 PERCENT A YEAR AND THAT
PROSPECTS FOR NEW INVESTMENT ARE MODERATELY ENCOUR-
AGING. FULL TEXT OF SPEECH POUCHED TO EUR/NE.
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END SUMMARY.

2. FACTS AND FIGURES: THORN SAID LUXEMBOURG'S
GNP IS EXPECTED TO INCREASE IN VOLUME BY 1.8
PERCENT DURING 1978, AS OPPOSED TO 1.1 PERCENT
LAST YEAR. UNEMPLOYMENT IS DOWN FROM 1,400 (UNSATIS-
FIED JOB SEEKERS) AS OF JANUARY TO 1,200 IN APRIL.

LUXEMBOURG'S RATE OF INFLATION, TIED WITH THE FRG'S FOR LOWEST WITHIN THE EEC, WAS A GRATIFYING 3.1 PERCENT IN 1977. THORN ADDED THAT BETWEEN 1964 AND 1977 THE AVERAGE LUXEMBOURGER'S PURCHASING POWER ROSE IN REAL TERMS BY 54 PERCENT. AT THE SAME TIME, THE PERCENTAGE OF INCOME WORKERS AND MIDDLE CLASS EMPLOYEES SPEND ON FOOD AND CLOTHING DIMINISHED BY NEARLY 20 PERCENT. SOME 60 PERCENT OF ALL WORKERS AND 70 PERCENT OF ALL EMPLOYEES, ACCORDING TO THORN, OWN THEIR OWN HOME, AND LUXEMBOURG HAS ONE OF THE HIGHEST RATIOS OF AUTOMOBILES PER CAPITA OF ANY COUNTRY IN WESTERN EUROPE.

3. STEEL: IN SPITE OF THESE ENCOURAGING STATISTICS, THORN POINTED OUT THAT LUXEMBOURG'S ECONOMY REMAINS IN A SERIOUS SLUMP BECAUSE OF THE CONTINUING RECESSION IN THE STEEL INDUSTRY. HE SAID THAT SINCE 1975 ARBED HAS RETRENCHED BY ELIMINATING SOME 3,000 WORKERS FROM ITS PAYROLL, EITHER THROUGH NATURAL ATTRITION OR BY PLACING THEM IN IT'S OTHER JOB SECTORS. THE COMPANY'S AIM IS TO REDUCE IT'S TOTAL WORK FORCE TO 16,500 WORKERS BY 1983. DESPITE THE REDUCTIONS IN FORCE REALIZED SO FAR, ARBED'S OVERALL SALARY COSTS INCREASED IN THE PAST YEAR BY NEARLY 5.5 PERCENT, THORN CONTINUED. AT THE SAME TIME, HOWEVER, HE ADDED, PRODUCTIVITY, AS UNCLASSIFIED

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MEASURED BY THE NUMBER OF MAN HOURS REQUIRED TO PRODUCE A TON OF STEEL WENT FROM 9.5 HOURS TO 8.5 HOURS -- A SIGNIFICANT INCREASE IN EFFICIENCY. THORN INDICATED THAT ARBED INVESTED THREE BILLION LUXEMBOURG FRANCS (LF) DURING 1977 AND PLANS TO INVEST AN ADDITIONAL FIVE MILLION LF THIS YEAR. IN ALL, ARBED PLANS TO INVEST SOME TEN BILLION LF IN AN EFFORT TO MAKE IT'S PLANT AMONG THE MOST MODERN IN WESTERN EUROPE. THORN ADDED THAT ARBED'S PLANS ARE CAREFULLY TAILORED TO THE DAVIGNON BLUEPRINT FOR STEEL PRODUCTION AND MARKETING WITHIN THE EEC.

4. DIVERSIFICATION. THORN SAID THAT OVER THE PAST SIX MONTHS HE HAS ESTABLISHED NEARLY 130 CONTACTS WITH AMERICAN FIRMS, AND IS ALSO APPROACHING A NUMBER OF SCANDANAVIAN AND JAPANESE FIRMS ABOUT THE POSSIBILITY OF INVESTING IN LUXEMBOURG. THORN SAID NINE AMERICAN FIRMS APPEAR TO BE SERIOUSLY INTERESTED AND TWO-- ONE IN THE PETRO-CHEMICAL SECTOR AND ONE IN THE COMPUTOR DATA SECTOR-- WILL ALMOST CERTAINLY INVEST IN LUXEMBOURG. HE SAID THAT GOODYEAR HAS

RECENTLY INVESTED 170 MILLION LF IN ITS LUXEMBOURG
PLANT, CREATING AN ADDITIONAL 60 JOBS (SEE LUXEMBOURG
0516) AND THAT GOODYEAR'S LONG RANGE PLANS TO IN-
CREASE TRUCK TIRE PRODUCTION COULD EVENTUALLY LEAD
TO ANOTHER 500 JOBS. SEVERAL OTHER INVESTMENT OR
EXPANSION PROJECTS, THORN CONTINUED, BY SMALL OR

MEDIUM SIZE FIRMS WILL INCREASE EMPLOYMENT OPPOR-
TUNITIES. HE CAUTIONED, HOWEVER, THAT ONE OR TWO
FIRMS ALREADY HERE MIGHT HAVE TO CLOSE DOWN THEIR
LUXEMBOURG OPERATIONS BECAUSE OF HIGHLY UNFAVORABLE
MARKETING CONDITIONS IN THEIR SECTORS.

5. CONCLUSION: IN CONCLUSION THORN SAID LUXEM-
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BOURG'S OVERALL ECONOMIC PICTURE SHOULD INSPIRE
NEITHER UNDUE OPTIMISM NOR DEEP PESSIMISM. HE
CALLED FOR CONTINUED EFFORTS BY MANAGEMENT, LABOR
AND GOVERNMENT TO ATTRACT NEW INVESTMENT, TO IN-
CREASE TRADE AND, ABOVE ALL, IN THORN'S WORDS "TO
SAFE GUARD LUXEMBOURG'S MOST PRECIOUS ADVANTAGES,
SOCIAL PEACE AND POLITICAL STABILITY."
LOWENSTEIN

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PRIME MINISTER, ECONOMIC CONDITIONS, SPEECHES
Control Number: n/a
Copy: SINGLE
Draft Date: 26 may 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 jan 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978LUXEMB00566
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780222-1217
Format: TEL
From: LUXEMBOURG USEEC
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780515/aaaaamab.tel
Line Count: 144
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 70e0b695-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 29 mar 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2552434
Secure: OPEN
Status: NATIVE
Subject: PRIME MINISTER GASTON THORN'S REVIEW OF LUXEMBOURG'S ECONOMIC SITUATION
TAGS: ECON, LU, EEC, (THORN, GASTON)
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/70e0b695-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014